Multi-factor framework
for sectoral picks

At any given point in time, there are multiple good investment opportunities available in the market. However, two factors that separate a great investment opportunity from a good one are perhaps timing and the relative valuation of the investment opportunity.

As is evident from the periodic table below, sectoral performance can vary across time periods with the rates of outperformance and underperformance not remaining consistent.

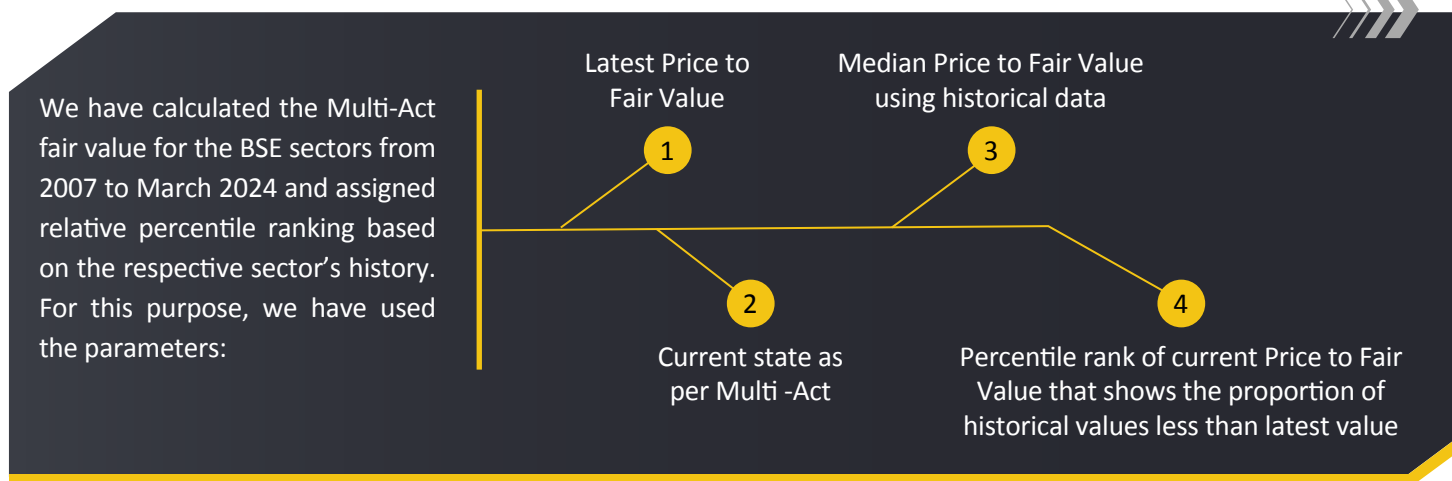**Exhibit 1:** FY returns across sectors for the period 2013 - 2024

Year										
2024	93.1%	79.0%	63.3%	60.9%	59.8%	59.0%	32.3%	25.5%	21.7%	17.5%
2023	23.9%	22.0%	3.5%	-4.0%	-9.9%	-10.1%	-14.8%	-19.6%	-20.6%	-21.9%
2022	55.7%	39.0%	35.9%	31.2%	30.0%	27.6%	18.4%	12.8%	6.8%	3.6%
2021	139.3%	129.4%	118.8%	82.6%	78.1%	77.6%	76.2%	66.3%	39.0%	30.0%
2020	-6.5%	-12.5%	-15.9%	-17.3%	-26.7%	-31.1%	-32.8%	-33.0%	-36.7%	-41.5%
2019	24.6%	24.5%	14.8%	12.4%	6.8%	-4.0%	-9.6%	-10.7%	-13.5%	-22.7%
2018	19.7%	17.7%	13.9%	13.0%	13.0%	10.4%	7.4%	6.4%	2.0%	-14.9%
2017	52.9%	37.1%	37.1%	30.7%	30.2%	25.1%	19.3%	1.3%	-1.4%	-8.0%
2016	3.3%	0.9%	0.2%	-2.3%	-8.4%	-9.4%	-14.1%	-14.3%	-16.1%	-21.7%
2015	70.4%	50.0%	44.6%	43.3%	27.6%	24.4%	18.3%	18.3%	11.3%	-1.0%
2014	28.5%	27.1%	24.7%	21.5%	17.8%	17.6%	15.9%	11.4%	8.9%	-0.0%
2013	31.4%	21.0%	12.5%	9.1%	4.8%	3.5%	-12.9%	-14.4%	-15.4%	-19.3%

Legend:

- Commodities
- Consumer Discretionary
- Energy
- FMCG
- Finance
- Industrials
- Healthcare
- IT
- Telecom
- Utilities

Multi-Act's fair value analysis comprehensively inculcates the relevant metrics to identify sectors that are fairly valued and can be considered as compelling investing opportunities. In order to determine the timing of entry, we leverage technical analysis to identify the right levels for entry and exit.

The **fairest** of the fair value

We have calculated the Multi-Act fair value for the BSE sectors from 2007 to March 2024 and assigned relative percentile ranking based on the respective sector's history. For this purpose, we have used the parameters:

1 Latest Price to Fair Value

2 Current state as per Multi -Act

3 Median Price to Fair Value using historical data

4 Percentile rank of current Price to Fair Value that shows the proportion of historical values less than latest value

These parameters are used to calculate the Fair Value.

Fair value is based on the estimated business value

Exhibit 2: Result of our analysis

BSE Sectors	Price to Fair Value as on Mar 2024	Current state as per Multi-Act	Median*	Percentile rank of current
Telecom	2.78	Super expensive	1.44	0.87
Consumer Discretionary	2.57	Super expensive	1.50	0.94
Industrials	2.19	Super expensive	1.42	0.82
Commodities	1.95	Expensive	1.41	0.76
Utilities	1.73	Expensive	0.95	0.75
IT	1.62	Expensive	0.82	0.95
Healthcare	1.61	Expensive	1.14	0.91
FMCG	1.56	Expensive	1.35	0.90
Energy	1.48	Moderately expensive	1.06	0.95
Finance	1.26	Moderately expensive	1.16	0.66

* Median: Median of historical Price to Fair Value for each sector

Classes defined by Multi-Act analysts

Under 0.50: Distress
Between 0.50 to 0.75: Cheap
Between 0.75 to 1.25: Reasonably priced

Between 1.25 and 1.5: Moderately expensive
Between 1.5 and 2: Expensive
Above 2: Super expensive

Key observations from our analysis

A majority of the sectors are currently either expensive or super expensive. The only two sectors that are an anomaly are **Energy** and **Finance,** which are moderately expensive.

The consumer discretionary, industrials, and telecom are super expensive.

Interestingly, none of the sectors are currently cheap or reasonably priced.

As per percentile ranking, all sectors are above 0.50. This indicates that every sector is above its historical median, meaning the market is costly.

Basis percentile ranking, the IT, Energy, and Consumer Discretionary sectors are the costliest today as compared to their history.

To further solidify our understanding and ensure a robust selection, we calculated the z-score for the PE/PB multiples of the BSE sectors. The z-score helps us measure how far is the current value from its historical mean, using a standardised scale.

Understanding **z-score**

Exhibit 3: Z-score for PE/PB multiple – March 2024

BSE Sectors	Cheap Sectors	Expensive Sectors	1 Y Forward Returns
Utilities		0.88	-4.1%
Healthcare		1.39	12.0%
Finance		0.26	13.2%
Consumer Discretionary		1.06	10.2%
FMCG		1.05	16.6%
Energy		1.18	22.9%
Telecom		1.29	1.8%
Commodities		1.29	13.4%
IT		1.42	16.1%
Industrials		1.56	-4.3%

Material Deviation	Current < Historical Average	Current > Historical Average	Material Deviation
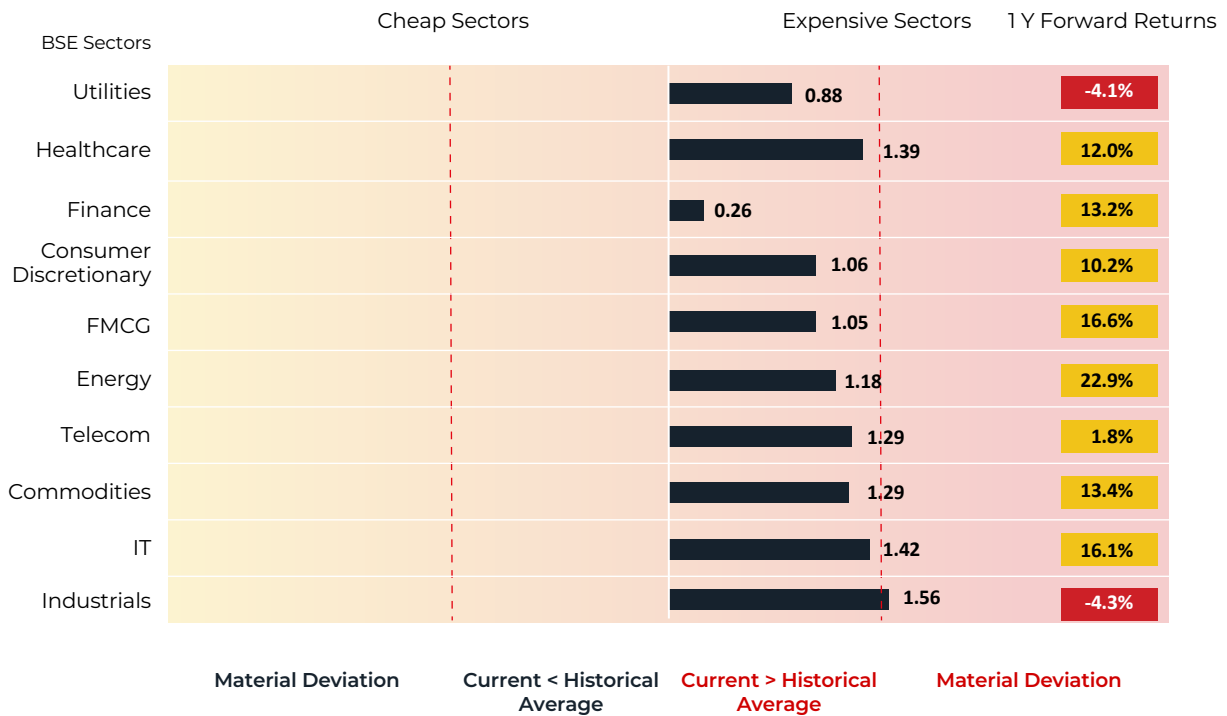
The above analysis indicates that while none of the sectors are currently cheap, select sectors do exhibit a higher probability of returns from current levels. For example, the current levels of **Energy , FMCG, and IT** indicate that in the past, these levels have subsequently generated returns of 22.9%, 16.6%, and 16.1%, respectively over the next year.

How to read **Exhibit 3**

Z-score above 1.5 or below -1.5 (i.e., in 'Material Deviation' zone) indicates that the sector is currently considerably expensive or cheap, respectively.

Numbers on right hand side in the chart indicate 1-year forward returns of a particular sector based on the current Z score. For example, 'Energy' sector Z score is currently in the '1 to 1.5' bucket and historically, the sector has generated returns of 22.9% over the next 1 year whenever the z-score has been in the '1 to 1.5' bucket.

Is there anything like **perfect timing**?

Our technical analysis model is focused on both momentum as well as trend indicators that include the MACD and the ADX. While the MACD basically takes two trend following indicators and turns them into a momentum indicator, the ADX is a trend indicator that is primarily used not to identify the direction of the trend but the strength of the trend.
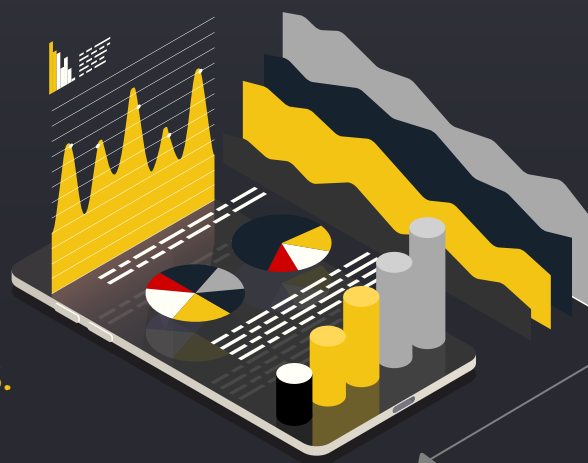
Exhibit 4: Technical view of sectors

BSE Sectoral Index	Technical Classification	Technical Indicator Reading	Current price (20/01/2024)	Key Support Region	Key Resistance	Comments on possible price action over next year
Consumer Discretionary	Bullish	"MACD – Bullish ADX – Bullish"	8,093	~6,800	NA	Bullish momentum at present but considering the sharp rise, it could turn to neutral.
Energy	Bullish	"MACD – Bullish ADX – Bullish"	10,928	~9,000	NA	Strong momentum, trend is likely to continue.
Fast Moving Consumer Goods	Bullish	"MACD – Bullish ADX – Bullish"	20,175	~18,100	NA	Moving along a rising trendline, monitor for trend change signals.
Banks	Neutral	"MACD – Neutral ADX – Neutral"	52,233	~37,300	56,000	Near term seems like a breach of a trendline, could reverse and turn bullish.
Healthcare	Bullish	"MACD – Bullish ADX – Bullish"	32,645	~27,000	NA	Strong momentum, trend is likely to continue.
Information Technology	Neutral	"MACD – Bullish ADX – Bullish"	37,466	~26,000	~39,000	Has moved to upper end of resistance zone with momentum, could potentially breakout
Telecommunication	Bullish	"MACD – Bullish ADX – Bullish"	2,382	~1,800	NA	Strong momentum, trend is likely to continue.
Utilities	Bullish	"MACD – Bullish ADX – Bullish"	4,992	~4,400	NA	Likely to re-test breakout level of ~4500. Price action here will signify the future move.

Key Support/Resistance region – Breach of these levels triggers a change in technical classification.
ADX – ADX stands for Average Directional Movement Index and can be used to help measure the overall strength of a trend.
MACD – The Moving Average Convergence/Divergence indicator is a momentum oscillator primarily used to trade trends.

Our technical analysis reveals that the **Energy, Healthcare, and Telecommunication** sectors are currently witnessing strong momentum with the trend likely to continue in the near future.

Multi-Act's fair value model can help to accurately assess the current valuation of sectors and make robust investment decisions. It ensures that the approach to selection is scientific and relatively unaffected by behavioural biases.
At the same time, in-depth technical analysis aids in identifying the right entry levels for the relevant indices.

We will continue applying these analytical models to our sectoral analysis and spotlight compelling opportunities across sectors.